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Note verbale dated 1 July 2003 from the Permanent Mission of Maldives to the United Nations transmitting a letter from the President of Maldives addressed to the President of the Economic and Social Council

The Permanent Mission of the Republic of Maldives to the United Nations presents its compliments to the Economic and Social Council of the United Nations and has the honour to forward herewith a letter from Mr. Maumoon Abdul Gayoom, President of the Republic of Maldives, addressed to Mr. Gert Rosenthal, President of the Economic and Social Council (see annex).

The Permanent Mission of the Republic of Maldives to the United Nations would be most grateful if the text of the enclosed letter could be circulated as a document of the Economic and Social Council under agenda item 13 (a).

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Annex to the note verbale dated 1 July 2003 from the Permanent Mission of Maldives to the United Nations addressed to the President of the Economic and Social Council

My Government is pleased that, since my letter dated 14 July 2000, addressed to your predecessor (see E/2000/97, annex), on the issue of graduating Maldives from the list of the least developed countries, the pronouncements made by both the Economic and Social Council and the Committee for Development Policy have reflected an increasing recognition of the concerns that the Maldives had expressed over the inadequacies of the current criteria as well as the procedure for graduation.

In its 2002 report, the Committee for Development Policy had identified an "island paradox" in that small island States that registered, according to current criteria, high scores on both the income and the human assets indicators, were "among the most structurally handicapped and/or vulnerable countries", and further that such countries were "among the least prepared to face a loss of concessionary treatment in the context of graduation". In addition, the Committee stressed that smooth transition was a "paramount principle" and emphasized that graduation should "mark the beginning of a dynamic process of development". The Committee also affirmed that countries that qualified for graduation from the least developed country category "should be commended for their success and not penalized" by the imposition of the kind of shock that would follow from the sudden withdrawal of the benefits granted to a least developed country. The Council has also echoed the fundamental principle of smooth transition, originally declared by the General Assembly in its resolution 46/206 of 20 December 1991, when it envisaged graduation of countries from the list of least developed countries.

Despite the apparent evolution of a more nuanced understanding of graduation, my Government remains deeply concerned about the lack of action to operationalize the fundamental principles set out by the General Assembly and the Council. In fact, while the need for a concrete assessment of the cost of graduation has been pointed out by the Committee, no such work has been carried out and indeed the methodology or a mechanism for doing so has not been worked out. Accordingly, the suggestion made by the Committee that graduation should "trigger" a round table meeting for the purpose of "redefining the range of concessions" for the country that has been graduated is neither feasible nor prudent.

Although a concrete assessment of the costs of graduation for Maldives has not been made, the "Vulnerability profile of Maldives" prepared by the United Nations Conference on Trade and Development (UNCTAD) in April 2003 for use by the Committee for Development Policy in the review of the Maldives case, does highlight a number of critical issues that warrant the retention of Maldives on the least developed country list for the time being. These include the finding by UNCTAD that, for Maldives "there is a paramount need for maximum concessionary financing" to sustain its current development programmes, especially in view of the inability to sustain the debt burden that would entail from less concessionary borrowing terms that would apply upon graduation. UNCTAD also makes the case that, given the relative scarcity of skilled manpower, "there is a wide range of [technical assistance] needs that only the treatment currently granted under the least developed countries regime can satisfy". As I had

impressed upon your predecessor, graduation would also undermine the viability of the fisheries sector due to the loss of concessionary access to markets. These are precisely the kinds of shocks that the Committee for Development Planning has asserted should be avoided being inflicted upon a country by graduation.

The UNCTAD profile, too, does indeed highlight several critical limitations of the criteria in relation to Maldives. In particular, it makes the point that, in the case of Maldives, the income criterion "remains much insufficient to contribute to substantiating the case for graduation, considering the high structural costs imposed to a large part of the population, the absence of quantitative consideration for environmental degradation and inequality in income distribution". In the past, the Committee for Development Planning had tended to view income inequality as a "policy variable" rather than a structural handicap. However, UNCTAD points out that in Maldives, such inequality is the result of structural handicaps that fragment the market and limit the multiplier effect of economic activities. A further shortcoming of the criteria is that there is no consideration of what the long-term trends are, which would of course be relevant if graduation is to mean the beginning of a dynamic process of development. For Maldives, the trends in both economic vulnerability and human capacity show either high instability or a downward trend, highlighting the need to treat with caution the results of the indicators at any given time. In fact, both the criteria and the profile fail to note the as yet incomplete demographic transition of the country, and consequently ignore the immediate pressures that result from that, as well as the high volatility in economic growth.

Moreover, it is still the case that both the criteria and the graduation rules are insufficiently receptive to the circumstances of small island economies, and these need to be carefully examined in the light of the island paradox identified by both the Committee for Development Planning and UNCTAD. While all States should be treated equally, the call by the Committee for a more differentiated treatment of countries with special disadvantages and vulnerabilities also highlights an important principle of fairness, and is welcomed by my Government. It should be recalled that the UNCTAD study on least developed countries status and graduation, carried out in 2001, had also noted that the current arrangements for the special treatment of handicapped countries were "insufficiently differential".

In view of the fact that no means have been developed to operationalize the fundamental principles of graduation stipulated by the General Assembly, the Economic and Social Council and the Committee for Development Planning, and further given the recognition by UNCTAD that the "immediate graduation of Maldives would have serious consequences for the country", my Government would like to request the Council to consider the retention of Maldives on the least developed countries list until a more practical approach to ensure smooth transition is worked out and made operational. Pending that, it is the view of my Government that although the Committee for Development Planning has found that Maldives meets the existing statistical criteria for graduation, it is neither eligible nor qualified to be graduated once the fundamental principles of graduation are applied.

It is my hope that these issues and principles will be emphasized at the proceedings of the Council at its 2003 substantive session, where the question of graduating Maldives will come up in relation to the report of the Committee for Planning Development on its fifth session. My Government would like to stress that, although the Committee observes that Maldives meets the

statistical criteria for graduation from the list of least developed countries, it has not recommended the graduation of the country. Moreover, due attention needs to be paid to the Committee's further assertion that Maldives, as a small and widely dispersed island economy, faces "special difficulties and costs" and that it would lose "important international benefits" if graduated. Accordingly, Maldives would like to seek your good offices in deferring the graduation of Maldives until all the critical issues have been properly addressed, for it would be the only logical and realistic option at the present time, if the fundamental principles relating to graduation are to be observed in a practical manner.

(*Signed*): Maumoon Abdul **Gayoom**